



## TOWN OF FOUNTAIN HILLS CITIZEN'S ACADEMY

### **Financial Policies**

The Town has an important responsibility to its citizens to account for public funds and to plan for the adequate funding of services desired by the public, including the provision and maintenance of public facilities. Financial policies are intended to establish guidelines for the Town's overall fiscal health.

Financial policies adopted by Town Council include:

Community Facilities District (CFD) Policy – governs the application procedures, implementation methodology and financial responsibilities for any CFD project to be considered. Provides that all costs incurred by the Town and/or the CFD in connection with the CFD application, formation, administration, and operational expenses be borne by the applicant/landowner. Currently the Town has two CFD's – Eagle Mountain and Cottonwoods that are supported by ad valorem taxes on property owners within those communities.

Town Investment Policy – formalizes the framework for the Town's daily investment activities of idle cash. The policy ensures safety of all investments which must be 100% collateralized or backed by the full faith and credit of the U.S. government.

Fund Balance Policy – establishes the minimum level of reserve funds and consists of the reserved fund balance of 20% of average actual revenues for preceding five years, designated unreserved fund of a minimum 10% of average actual revenues for preceding five years and undesignated unreserved fund balance of no less than 30 days of annual operating expenditures for the upcoming fiscal year. (The 30 days of annual operating expenditures are classified as a Rainy Day Fund (RDF). The Town's general fund reserve balance has been maintained at \$6.0M.

Debt Policy – sets forth the parameters for issuing and managing debt, particularly as it relates to the five year capital improvement program and with a preference for "pay-as-you-go" financing of capital projects when feasible. Also includes a maximum amount for the issuance of bonds of 20% of the Town's operating revenue.



## Town Funds

The accounts of the Town are organized on the basis of funds in conformity with generally accepted accounting principles. All Town funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available and expenditures are recognized when the related fund liability is incurred. General fixed assets are recorded as expenditures at the time of purchase. The Town funds and their uses are:

General Fund – a city or town must have what is commonly called a “general fund” as required in A.R.S. §42-17101. This fund is where all general operating expenses are paid and to which taxes and all other revenues not specifically allocated by law or contractual agreement to other funds are deposited. Areas that are funded by the general fund are:

- Town Council
- Administration
- Information Technology
- Human Resources
- Finance
- Facilities
- Town Manager
- Town Clerk
- Public Works
- Building Safety
- Planning and Zoning
- Code Enforcement
- Parks, Recreation, Community Center and Senior Services
- Law Enforcement
- Fire, Emergency Medical Services and Emergency Management
- Municipal Court



Highway User Revenue (HURF) Fund (A.R.S. §28-6533) – the monies which go into this fund are collected by the State from the tax on the sale of gasoline, diesel fuel and other transportation related fees. The State then passes a certain amount of this revenue on to cities and towns. The expenditure of highway user revenues is restricted solely for street and highway purposes. The street department is the only department that can be budgeted within this fund.

Excise Tax Special Revenue – these revenues are the dedicated portion of the local sales tax which are restricted for mountain bonds (.2%), civic center phase II bonds (0.1%) and economic development (.1%).

Grants – the Town budget includes an allocation for anticipated as well as unanticipated grants that may be received during any fiscal year. A miscellaneous amount is budgeted in the event that grant funds become available.

Debt Service Funds – the revenues in this fund are derived from secondary property taxes and the local sales tax sufficient to pay the annual debt payments on bonds that were issued for open space, road paving, the community center and Town Hall.

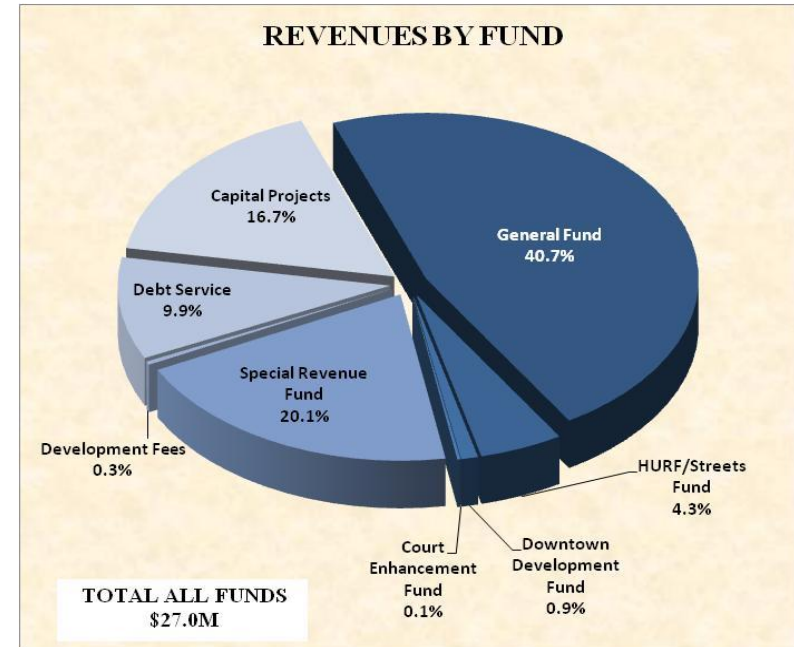
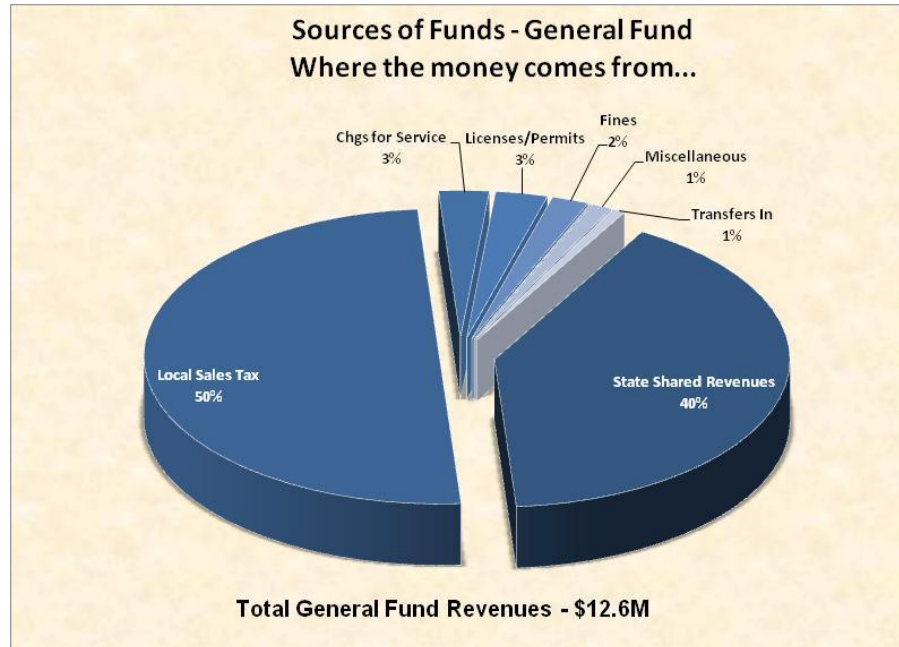
Development Fees – impact fees imposed on new construction, restricted for expenditures for which they were imposed. The Town imposes a fee for law enforcement, streets, fire, library, general government, parks and recreation, and open space.

Capital Projects Fund – this fund is established for the expenditures of major capital projects; the revenue source is local sales tax derived from new construction per policy.

Revenue Sources - There are a variety of funding sources available to local governments. The following chart shows what revenue sources are received by the Town for FY10-11. The subsequent table illustrates the revenue sources, history and restrictions.



## WHERE THE MONEY COMES FROM





## BUDGET

In January 2003, the Town of Fountain Hills received its first Distinguished Budget Presentation Award from the Government Finance Officers Association (GFOA) for fiscal year beginning July 1, 2003 and has received the award each year since. Fountain Hills is one of only 19 cities and towns in Arizona to receive this award. The criteria an agency must meet to receive a GFOA award are:

- A Policy Document – budget message that articulates priorities and issues
- An Operations Guide – describing activities, services, or functions provided
- A Financial Plan – a summary of major revenues and expenditures
- A Communications Device – charts and graphs to highlight financial and statistical formation

### Budget Process

The Town operates on a fiscal year commencing on July 1 and ending on June 30 in the following calendar year (the “fiscal year”). The budget process begins in December preceding the upcoming fiscal year and is initiated by obtaining estimates of incoming revenues. Estimates of projected State shared revenues for the fiscal year are provided by the League of Arizona Cities and Towns. Estimates of revenues raised from local sources are provided by staff based on analysis of trends, local conditions, and conservatism. After estimated revenues have been determined, the next step is to analyze the anticipated expenditures for the upcoming year based on Council priorities, departmental requests, and level of service provided.

Laws governing the State require that on or before the third Monday in July of each fiscal year, the Town Council must adopt a tentative budget. With the adoption of the tentative budget, the Council has set its maximum “limits” for expenditure - these limits may be reduced upon final adoption but cannot be increased. Once the tentative budget has been adopted, it must be published once a week for at least two consecutive weeks following adoption. Along with publication of the budget, a notice of the final budget adoption meeting is published.

State law requires a period of at least seven days between adoption of the final budget and adoption of any tax levy (no later than the third Monday in August). The adoption of the final budget may take place through a motion approved by the Council; however, Fountain Hills’ practice has been to adopt the budget by resolution.



The budget sets forth the purposes for which specific amounts of money may be expended, if and when the funds become available. Good budget administration ensures that no financial obligations are incurred until there is money in hand, and the budget has allocated the amount to be expended. The Town Manager is responsible for the annual preparation of the budget.

## **Budget Reports**

A quarterly budget report is prepared by the Finance Department showing the economic and fiscal picture of the Town. The report is presented to the Town Council and published on the Town's website. This report is available the second month following the end of each quarter. Following is a detailed look at the budget schedule:

## **Budget Schedule**

October – The Town Council attends a planning retreat to begin discussion regarding priorities for the upcoming fiscal year. The Town Manager and Department Directors attend a retreat to begin planning and budgeting for the Council priorities. The Budget Committee begins monthly meetings.

December – January - Department directors and finance department review year-to-date (YTD) expenditures and projected year-end fund balance. Finance department prepares next fiscal year revenue projections. Department directors prepare initial budget requests and submit any new personnel or projects that will affect the next year budget.

February – Finance department submits a summary of estimated fiscal year end revenue, expenditures, and fund balances to the Town Manager and Department Directors. Department directors submit their proposed budget requests and justifications to Town Manager.

March - Department directors, Town Manager and finance department review requested budget requests.

April - Draft budget document submitted to Town Manager for review, revisions, and finalized for Council review.

May -Town Council receives draft budget; public meetings are held, and tentative budget is adopted.

June - Adopt final budget, Adopt tax levy for secondary property tax.



## State Shared Revenues

In fiscal year 2010-2011 state shared revenues account for 41% of the general fund budget and 99% of the Highway User Revenue (HURF) Fund budget. The state shared income tax prohibits the Town from enacting a local income tax on residents. The state shared sales tax is subject to the fluctuations of the economy and state legislative appropriation.

<b>TAX</b>	<b>DESCRIPTION</b>	<b>LIMITS</b>	<b>DISTRIBUTION</b>
State Transaction Privilege Tax (Sales Tax)	Based on state sales tax receipts; distribution based on ratio of Town's population to total state population (per census)	No restrictions; may be expended for any municipal public purpose	Monthly
State Income Tax	Based on total state income tax collections from two years prior; officially called Urban Revenue Sharing	No restrictions; may be expended for any municipal public purpose	Monthly
Highway User Revenues (HURF)	Gasoline tax as well as other transportation related fees; distribution based on population and county of origin of gasoline sales	State constitutional restriction that funds be used solely for street and highway purposes	Monthly
Local Transportation Assistance Fund (LTAF)	Proceeds from State lottery, distribution based on population – (this revenue was swept by the Legislature in FY09-10 and is no longer available.)	Restricted for street and highways, transit programs. 10% may be used for cultural, educational, historical, and recreational programs	Monthly
Vehicle License Tax	Revenues collected for licensing of motor vehicles; distribution based on population	No restrictions, may be expended for any municipal public purpose	Semi-monthly



## Local Revenue Sources

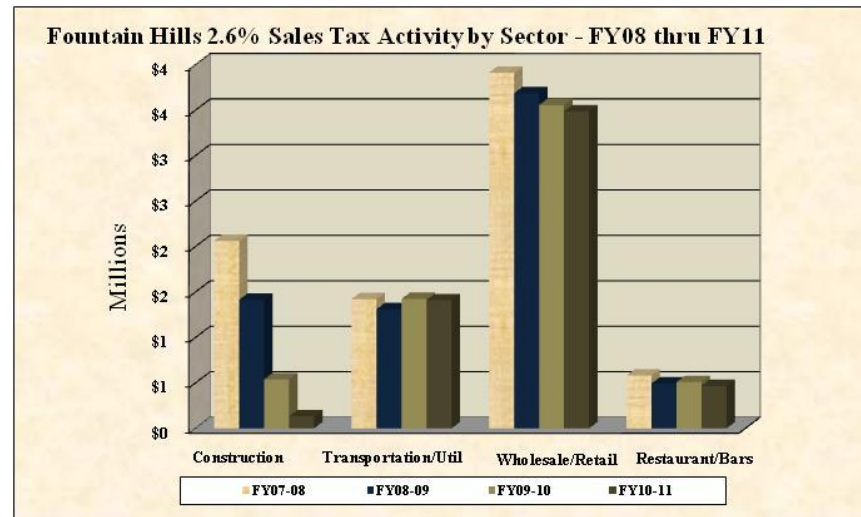
<b>TAX</b>	<b>DESCRIPTION</b>	<b>LIMITS</b>	<b>DISTRIBUTION</b>
Property Tax (Town has no primary property tax)	Based on valuation of all property in Fountain Hills; most stable source of revenue. Requires voter approval; strict limits on primary levy, no limits on secondary levy	Primary property tax can be used for operating costs; secondary property tax is strictly to retire debt. FY10-11secondary rate is \$0.16/\$100 AV	Monthly
Local Transaction Privilege Tax (Sales Tax)	Tax on retail sales and other activity; no voter approval required, no limit on rate Rate is 2.6% for all activity except long term residential rental income which is taxed at 1.6%	No statute restrictions, but Council restricted 0.2% for mountain bond payments, 0.1% for civic center bond payments and 0.1% for downtown development; the remaining amount may be expended for any municipal public purpose	Weekly
Bed Tax	Special excise tax on hotel and motel room rentals - Rate is 4% plus 2.6%	No restrictions; may be expended for any municipal public purpose	Weekly
Business License Tax	Flat annual fee on all business in Fountain Hills is \$50	No restrictions; may be expended for any municipal public purpose	Daily
Fines and Forfeitures	Fines paid to the municipal court for traffic and violation of municipal ordinances	No restrictions; may be expended for any municipal public purpose	Daily
User Fees	Collected from users of Town facilities or programs	No restrictions; may be expended for any municipal public purpose	Daily
Permit Fees	Collected from building and zoning permits	No restrictions; may be expended for any municipal public purpose	Daily
Development (Impact) Fees	Collected from building permits	Restricted for the purpose for which it was imposed	Daily



The local sales tax is the single largest source of revenue for the Town at a current rate of 2.6% on taxable activity. In 2000 the Town Council increased the tax rate by 0.4% to fund mountain preservation and downtown development. In 2003 the Town Council increased the rate by 1% to fund fire, emergency medical service, and general operations. Total local sales tax collections for the past six years and an estimate for the current fiscal year are:

Fiscal Year	Amount
2005-2006	\$ 9,902,388
2006-2007	\$11,075,430
2007-2008	\$10,478,882
2008-2009	\$ 8,740,324
2009-2010	\$ 7,612,705
2010-2011 (est)	\$ 7,169,714

The following chart shows the major local sales tax receipts by category for fiscal years 2008 through June 30, 2011 (estimated):





## Bonding

TYPE	DESCRIPTION	LIMITS	DISTRIBUTION
General Obligation Bonds (GO.Bonds)	Requires voter approval, retired through property tax (e.g., street paving, land preservation, community center)	Total bonding amount limited by state constitution	Received when bonds are sold
Revenue Bonds	Requires voter approval; secured by revenues (i.e. public utility) to retire debt	No limit other than voters	Received when bonds are sold
Street Improvement Bonds	Requires voter approval; repaid from HURF revenues	Limitations on issuance of bonds	Received when bonds are sold
Special Improvement District Bonds	To finance improvements in specific areas; no voter approval required; retired through property tax within district	Limited only by the cost of the improvements	Received when bonds are sold
Non-Profit Corporation	To finance specific projects; no voter approval required, retired through revenues	No limit	Received when bonds are sold

## Expenditures

### State Imposed Expenditure Limit

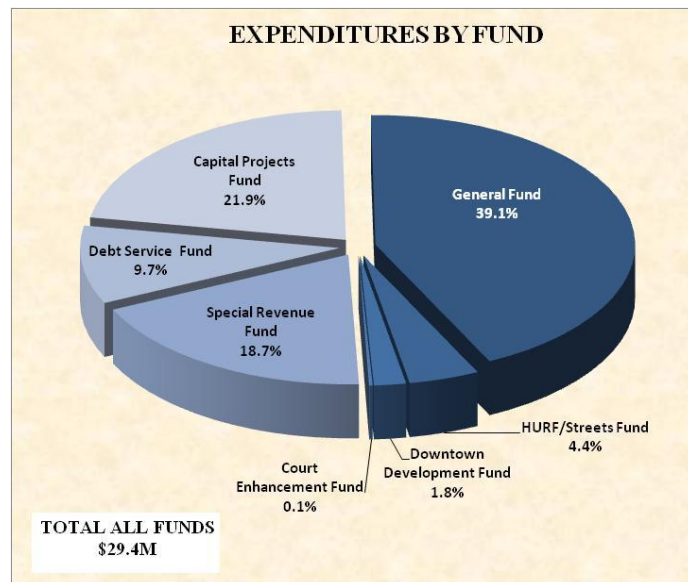
Both the State Constitution and the Arizona Revised Statutes set forth the framework of the Town's expenditure limit. The State imposed limitation uses actual payments of local revenues for FY1990 as the base limit. Each year the Economic Estimates Commission (EEC) determines how much the Town can increase its budget for the next fiscal year. The determination is made on the basis of standard increase in inflation and the population growth of the community. A city or town exceeding its expenditure limitation without authorization will have a portion of its allocation of State income tax withheld and redistributed to the other incorporated communities in the State. The penalty would be imposed in the fiscal year subsequent to the hearing held by the Auditor General on such a violation. The limit for Fountain Hills' fiscal year 2010-2011 is \$28,578,833 for all funds.



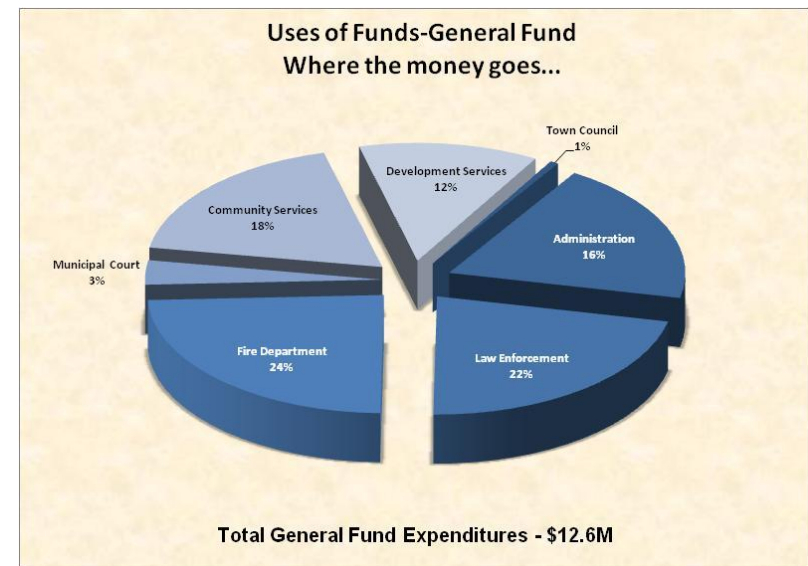
## Control of Expenditures

Arizona State law stipulates that no expenditures may be made for a purpose not authorized in the annual budget. Budget item expenditures may not exceed the amount indicated in the final adopted budget. Total proposed expenditures for all funds for fiscal year 2010-2011 is \$27.0M as shown below:

A summary of the fiscal year 2010-2011 proposed budgeted expenditures for all funds:



A chart showing the proposed General Fund expenditures budgeted for fiscal year 2010-2011:





## Bid Procedures

The Town Code (section 3-3-5) requires the following bidding procedure:

- Town manager serves as purchasing director.
- Purchases of \$0 - \$1,999 may be authorized by a Department Director.
- Purchases of \$2,000 - \$4,999 require three (3) price quotes (verbal or written); authorized by Department Director and Deputy Town Manager.
- Purchases \$5,000 - \$19,999 require three (3) written/faxed/emailed price quotes; authorized by Department Director and Deputy Town Manager.
- Purchases greater than \$20,000 require formal bid process including specifications, Department Director approval, Town Manager approval and recommendation to the Town Council for final approval.

## Audits

State law requires an audit of municipal operations to be made by a certified public accountant or accounting firm currently licensed by the Arizona State Board of Accountancy. The audit is required each fiscal year for towns and must include a financial statement of all accounts and funds of the municipality. Audits must be conducted in accordance with generally accepted auditing standards. This report must include the professional opinion of the auditor regarding the financial statements of the town or a declaration of why such an opinion cannot be expressed. The audit must be filed with the State Auditor General by October 31. The annual audit is available on the Town website.

## Assessed Valuation

Since 1980 the State of Arizona has operated under two distinct valuation bases for levying ad valorem property tax. They are referred to as “limited” (primary) and “full cash” (secondary) valuation. The limited property value cannot exceed the full cash value and tax dollars generated from the limited value are used for the maintenance and operation of counties, cities/towns, school districts, community college districts and the State of Arizona. Taxes levied against the full cash value are used for debt retirement, voter-approved budget overrides, and the maintenance and operation of special service districts such as sanitary, fire, and road improvement districts. The following shows the assessed valuation for tax years 2006 through 2010:

Assessed Value	2006	2007	2008	2009	2010
Primary	\$377,041,563	\$443,618,807	\$512,051,406	\$563,493,503	\$591,668,178
Secondary	\$397,380,162	\$610,738,122	\$684,742,347	\$651,218,464	\$576,535,714